

# First Quarter 2008 Earnings Teleconference

April 30, 2008





## Participants

Tim Solso                      Chairman and Chief Executive Officer

Jean Blackwell              Chief Financial Officer

Joe Loughrey                Chief Operating Officer

Tom Linebarger             President – Cummins Power Generation

Dean Cantrell                Director – Investor Relations



## Disclosure Regarding Forward-Looking Statements & non-GAAP Financial Measures

This presentation contains certain forward-looking information. Any forward-looking statement involves risk and uncertainty. The Company's future results may be affected by changes in general economic conditions and by the actions of customers and competitors. Actual outcomes may differ materially from what is expressed in any forward-looking statement. A more complete disclosure about forward-looking statements begins on page 3 of our 2007 Form 10-K, and it applies to this presentation.

This presentation contains certain non-GAAP financial measures such as earnings before interest and taxes (EBIT). Please refer to our website ([www.cummins.com](http://www.cummins.com)) for the reconciliation of those measures to GAAP financial measures.



Confident in our ability to perform in 2008 and beyond

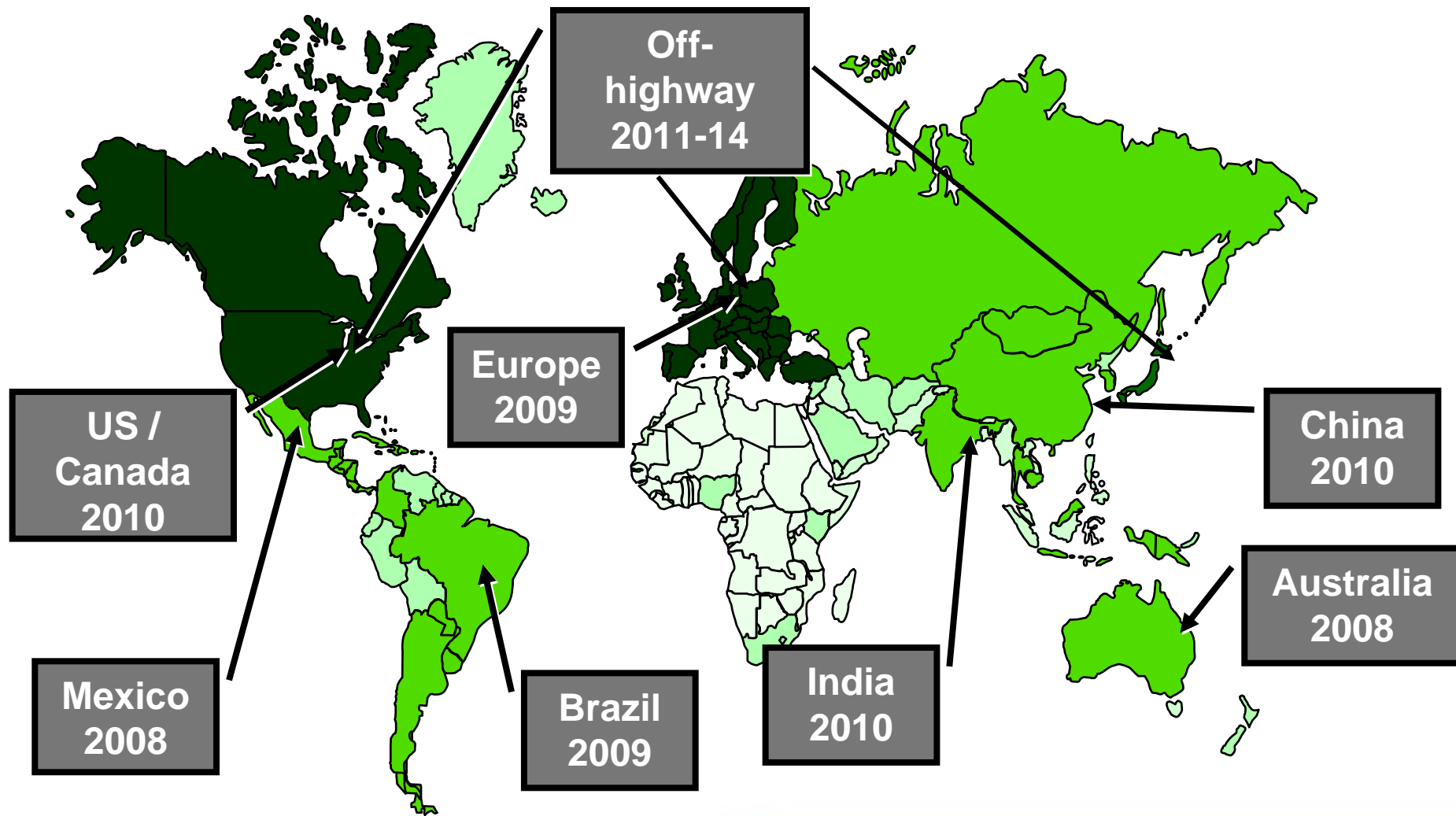
- Macro growth trends play to Cummins' strengths
- Demonstrated technology leadership
- Disciplined investment for growth



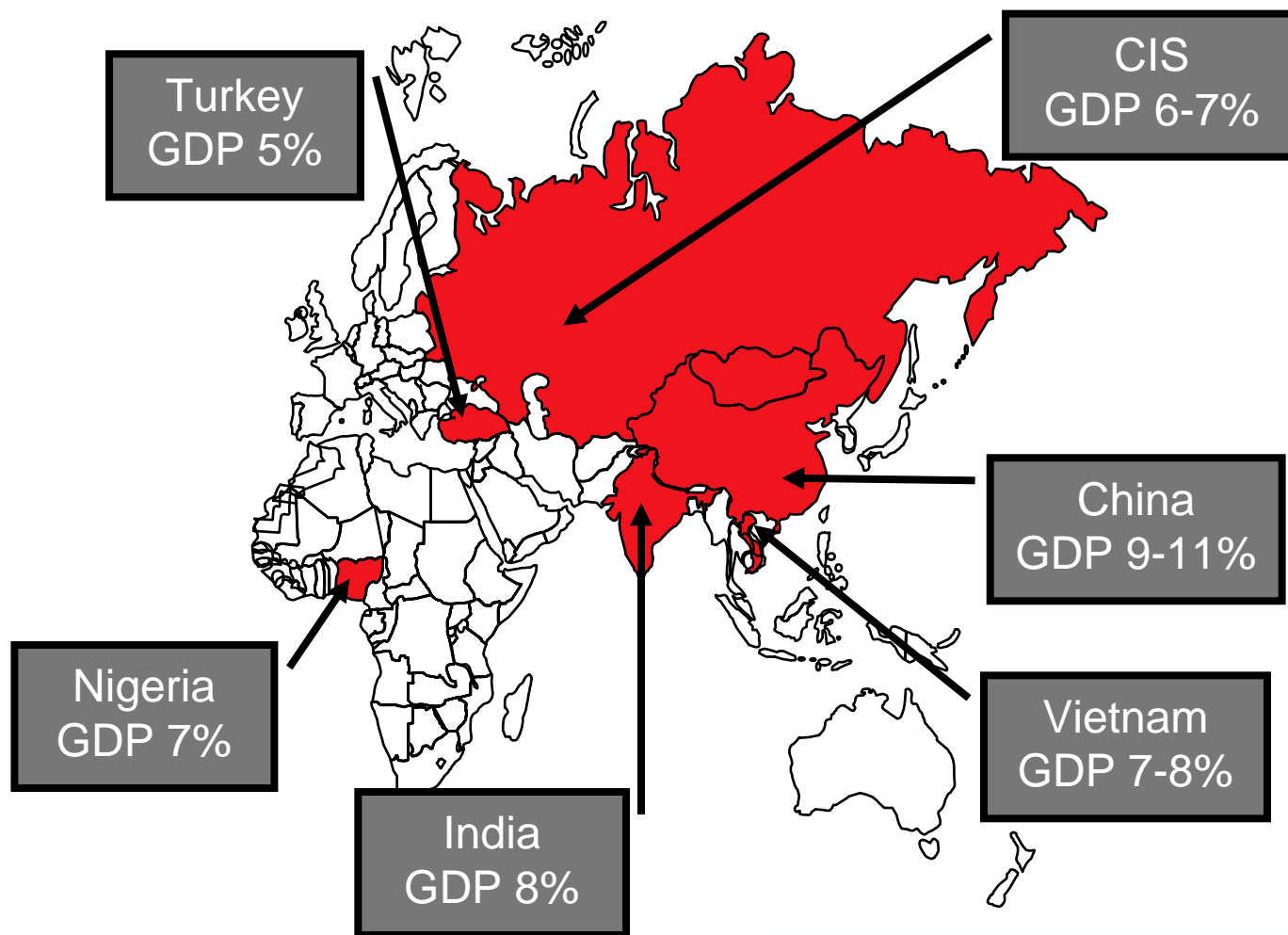
## Demand for Energy and Fuel Efficiency

- Energy independence and fuel economy
- Dependence on reliable electric supply
- Higher fuel costs and electricity consumption

# Tougher Global Emission Standards



# Robust and Sustainable GDP Growth





## Cummins Inc. Selected Financial Data

<u>Targets</u>	
Sales growth:	12%
EBIT margin:	10%
ROANA:	25%
ROE:	20%

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	3,474	2,817	657	23%
EBIT	315	243	72	30%
% of Sales	9.1%	8.6%		
ROANA (LTM)	30%	31%		
ROE (LTM)	21%	24%		

- EBIT growing faster than sales
- Gaining market share due to our technology leadership
- Investing in profitable growth opportunities in each operating segment, and in domestic and international markets



# Cummins Inc.

## Selected Income Statement Data

	<u>Q108</u>	<u>Q107</u>
Net Earnings (\$M)	190	143
Earnings Per Share	\$0.97	\$0.71
Warranties Issued (% of Net Sales)	3.1%	2.8%
Gross Margin (% of Net Sales)	20.4%	19.6%
SAR (% of Net Sales)	13.1%	12.9%

- Improved gross margin due to price realization, volume shift to larger engines, cost reduction programs and greater production efficiencies
- Unfavorable adjustment for prior period warranty estimates of 95 bps in Q1'08, half of which is related to older pre-2007 products; favorable adjustment in Q1'07 of 50 bps
- SAR up slightly due to investment in infrastructure to support growth



## Engine Segment Selected Financial Data

Targets  
Sales growth: 13%  
EBIT margin: 8.5%

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	2,209	1,765	444	25%
EBIT	194	128	66	52%
% of Sales	8.8%	7.3%		

- Record quarter for sales and EBIT
- Strong engine sales mainly due to market share gains in North America, and from strong international demand for construction, mining and marine equipment
- Gross margin improvement due to price realization on capacity constrained markets and favorable mix towards higher margin products



# Engine Segment

## Sales by Market – On-highway

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Heavy-duty truck	536	424	112	26%
Medium-duty truck and bus	397	206	191	93%
Light-duty automotive/RV	<u>275</u>	<u>288</u>	<u>(13)</u>	<u>(5%)</u>
Total on-highway	1,208	918	290	32%

- North America Heavy-duty Truck engine shipments up 52% - better than market increase due to significant market share gains
- Global Medium-duty Truck shipments up 68% with strength in Brazil and Europe together with market share gains in North America
- Bus shipments up 60% on strength in Europe, China, and North America
- North America Light-duty Automotive shipments down 18% due to US economic uncertainty



# Engine Segment

## Sales by Market - Industrial

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Total Industrial	732	617	115	19%

- Total revenues up in nearly all applications, primarily in international markets
- Global construction equipment sales up 14% driven by demand in East Asia, Europe, and Korea
- Worldwide mining revenue up 11% with growth in China, Russia, Latin America, and Australia
- Marine sales up 77% with successful launch of our Tier 2 product
- 15% increase in high-horsepower capacity above 30L in 2008



## Distribution Segment Selected Financial Data

Targets  
Sales growth: 15%  
EBIT margin: 11%

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	445	309	136	44%
EBIT	49	39	10	26%
% of Sales	11.0%	12.6%		

- Global demand remains strong in every geographic regions, including North America
- Acquisition of a distributor in North America added \$37M in sales this quarter and, as expected, diluted EBIT as percent of sales
- Joint venture income increased 47 percent, mainly on strength of North America distributors



## Components Segment Selected Financial Data

Targets  
Sales growth: 20%  
EBIT margin: 9%

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	820	657	163	25%
EBIT	37	24	13	54%
% of Sales	4.5%	3.7%		

- Record quarter for revenue - growth in all businesses, particularly Emission Solutions (up \$54M or 63%) and Turbo Technologies (up \$88M or 49%)
- Filtration up \$31M or 11%, excluding two business exited in 2007
- Significant EBIT growth due to improvements in three of the four businesses
- New leadership in Emission Solutions focused on initiatives to improve manufacturing efficiency, product cost and pricing



# Power Generation Segment

## Selected Financial Data

Targets  
Sales growth: 15%  
EBIT margin: 10%

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>	<u>Change Amount</u>	<u>Change Percent</u>
Sales	787	675	112	17%
EBIT	78	77	1	1%
% of Sales	9.9%	11.4%		

- Strong sales of commercial generator sets and alternator equipment across the globe
- Weakening RV market in North America led to lower Consumer revenues
- Increases in gross margin due to net price realization were offset by investments in sales force and infrastructure to support global market growth



## Joint Venture Income

<u>\$ Millions</u>	<u>Q108</u>	<u>Q107</u>
<b>Engine</b>	<b>33</b>	<b>17</b>
<i>On-highway</i>	21	9
<i>Off-highway</i>	8	5
<i>Rec. Marine</i>	4	3
<b>Power Generation</b>	<b>5</b>	<b>3</b>
<b>Distribution</b>	<b>25</b>	<b>17</b>
<b>Components</b>	<b><u>4</u></b>	<b><u>(1)</u></b>
<b>Total JV Income</b>	<b>67</b>	<b>36</b>

- Engine joint venture income up primarily due to strengthening Chinese on-highway truck market during Euro 3 transition
- Distribution increased 47% on strength of engine and power generation equipment sales in North America



## Cash Flow

	<u>Q108</u>	<u>Q107</u>
Operating Cash Flow (\$M)	37	(113)
Capital Expenditures (\$M)	90	48
Pension Funding (\$M)	17	61
Share Repurchase (\$M)	11	13
Working Capital (% of Net Sales)	19.0%	20.0%

- Cash flow strategy to maintain a strong balance sheet, including funding our liabilities; investing in profitable growth; and returning value to our shareholders
- Operating cash flow \$150M better mainly due to higher earnings and accrued expenses and lower pension contributions



## Guidance for 2008 Consolidated Results

<u>Item</u>	<u>Full Year Guidance</u>
Revenue	Up 12%
Earnings from Joint Ventures	Up 5-10%
EBIT Margin (%)	10%
Effective Tax Rate	↓ 34%
Capital Expenditures (\$M)	\$550 to \$600
Global Pension Funding (\$M)	↔ \$90 to \$100

- ↑ Guidance revised upward
- ↓ Guidance revised downward
- ↔ Change to range of guidance



## Guidance for 2008 Segment Results

<u>Item</u>	<u>Engine</u>	<u>Power Generation</u>	<u>Components</u>	<u>Distribution</u>
Revenue	↑ Up 10-15%	Up 10-15%	Up 17-22%	Up 25-30%
EBIT Relative to Target	Close to 8.5% target	Slightly Above 10% target	Low End 6-7%	Slightly Below 11% target



## Guidance for 2008 Engine Markets

- Shipments to North American Class 8 Heavy-duty truck up 35 to 40 percent despite flat OEM truck build
- Shipments to the global Medium-duty Truck and Bus markets to grow 25 to 30 percent
- Shipments to Light-duty Automotive & RV decline by 15 to 20 percent
- Industrial revenue up 20 to 25 percent
- Aftermarket revenue up 8 to 10 percent



Thank You for Your Interest in  
Cummins

We will now take your questions.

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# Appendix

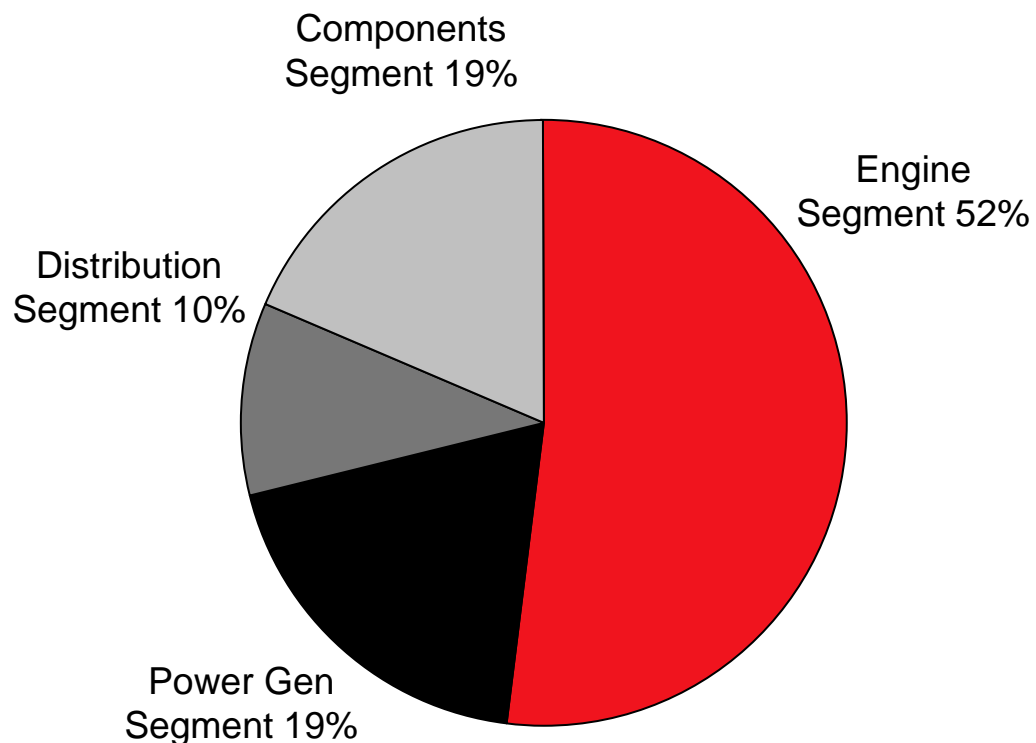




# Cummins Inc.

## Q1 2008 LTM Revenue by Segment

- Macro growth trends play to Cummins' strengths
- Disciplined investment for growth
- Demonstrated technology leadership



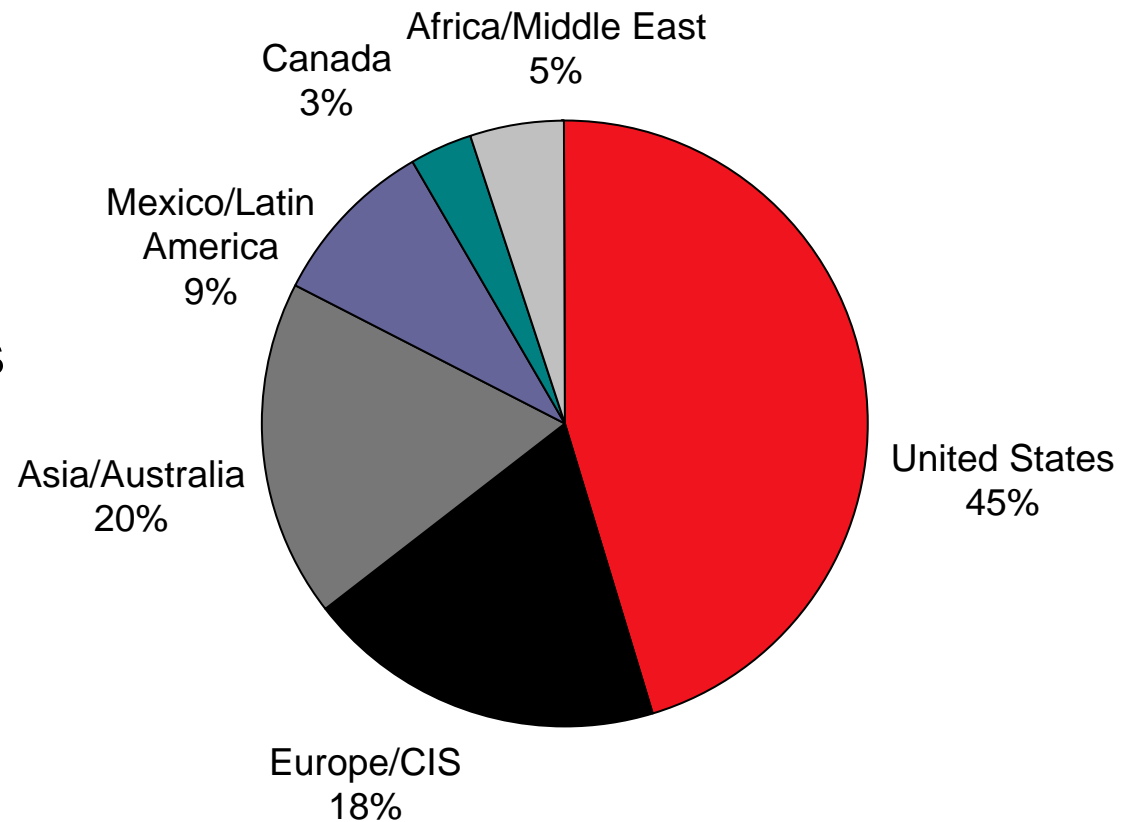
**Q1 2008 LTM Data**  
**Sales: \$13.7 billion**  
**EBIT: \$1,299 million**  
**EBIT Margin: 9.5%**



# Cummins Inc.

## Q1 2008 LTM Revenue by Marketing Territory

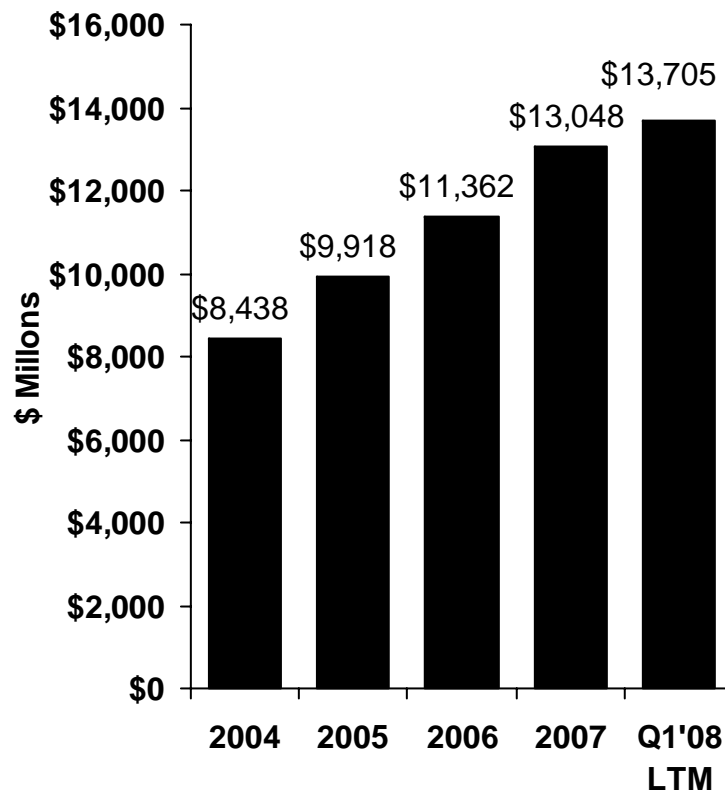
- International revenue is 55% of consolidated revenue
- Most international areas growing at double digit rate
- Demonstrates our geographic diversity



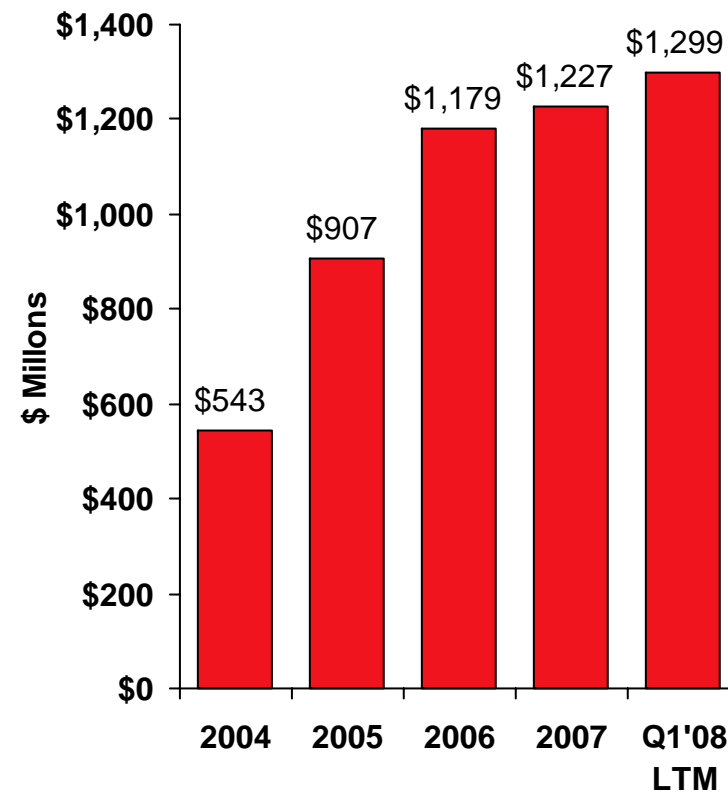


# Cummins - Historical Performance

## Sales



## EBIT

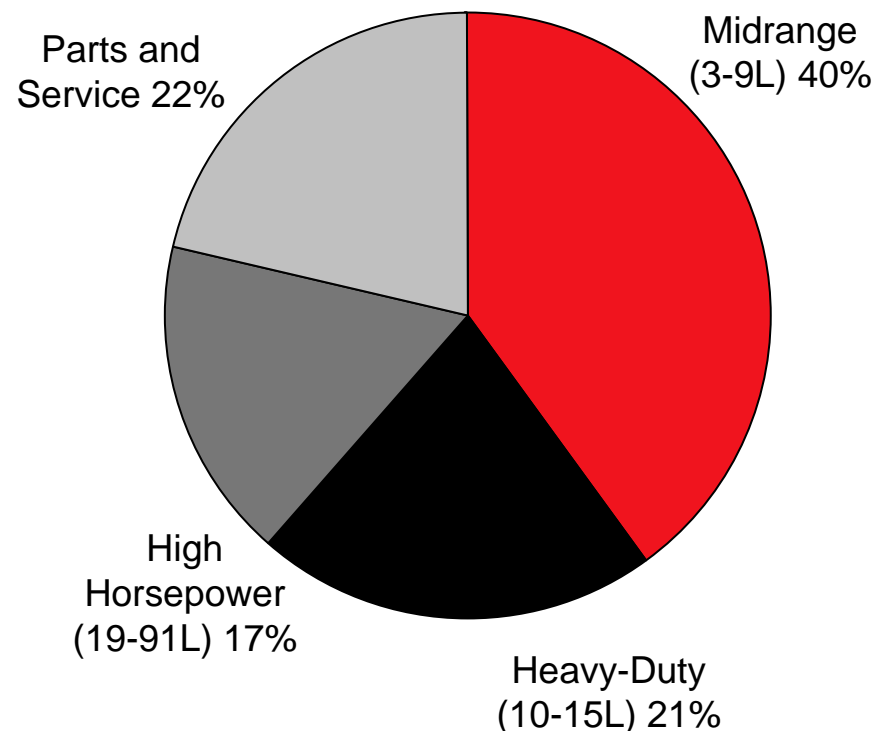




## Engine Segment

### Q1 2008 LTM Revenue by Product

- Emission regulations create opportunities
- Emerging markets
- Strategic OEM partnerships
- New engine platforms
- Aftermarket revenue creates stable earnings



#### Q1 2008 LTM Segment Data

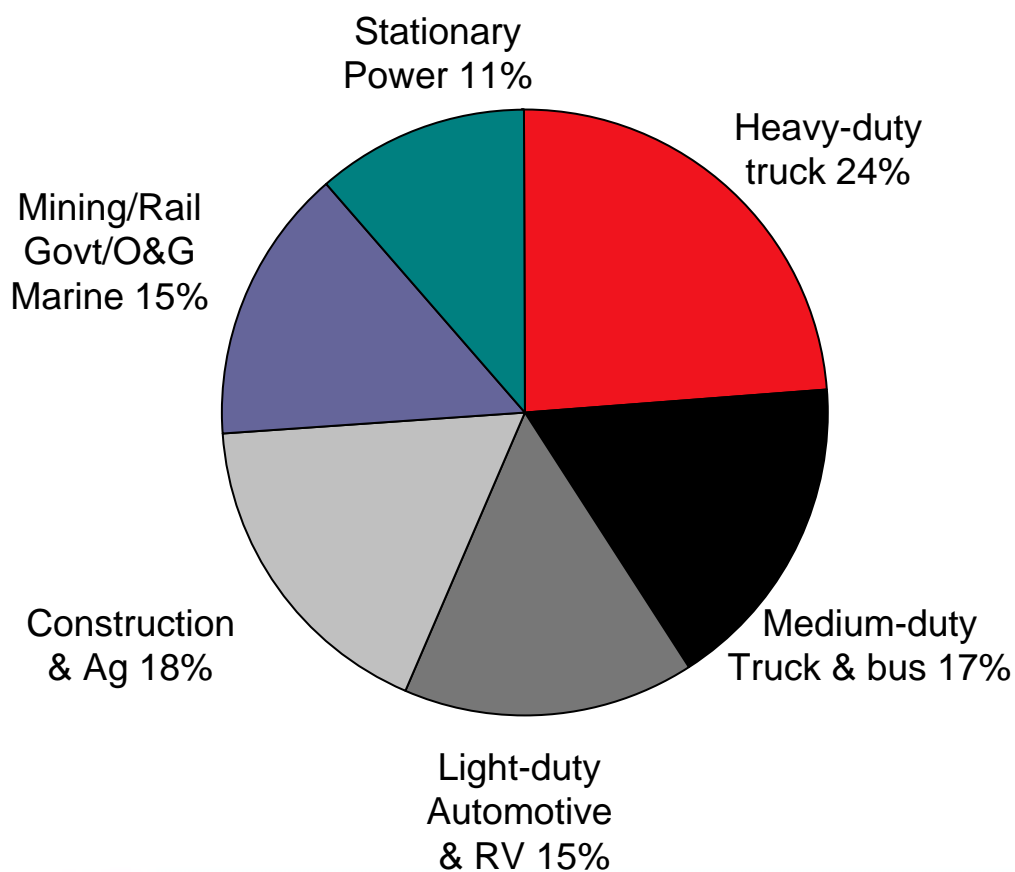
**Sales: \$8.6 billion**  
**EBIT: \$655 million**  
**EBIT Margin: 7.6%**



## Engine Segment

### Q1 2008 LTM Revenue by Market Application

- Gaining market share in on-highway markets
- Industrial markets supported by non-residential construction and commodity markets
- Expanding capacity to meet growing demand



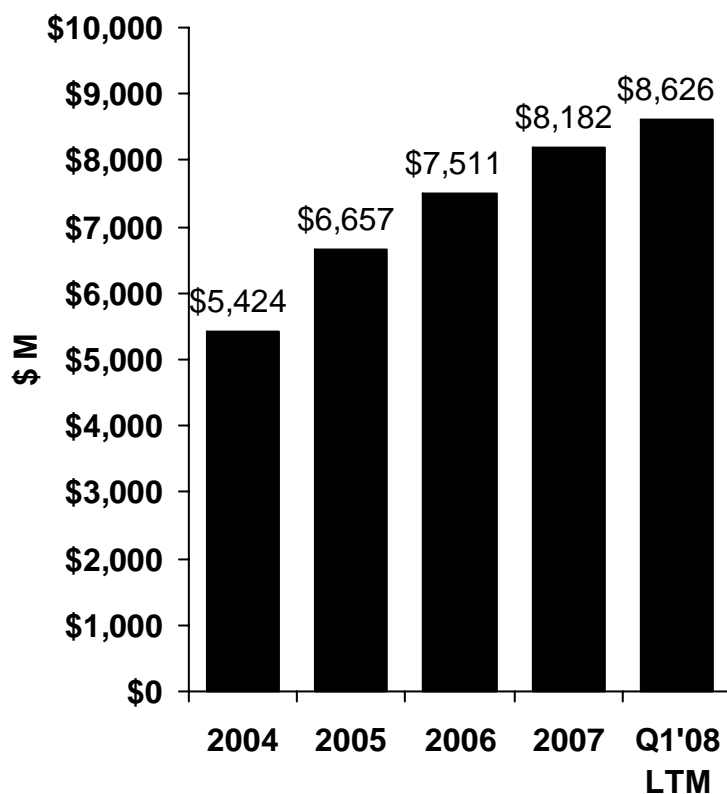
#### Q1 2008 LTM Segment Data

**Sales: \$8.6 billion**  
**EBIT: \$655 million**  
**EBIT Margin: 7.6%**

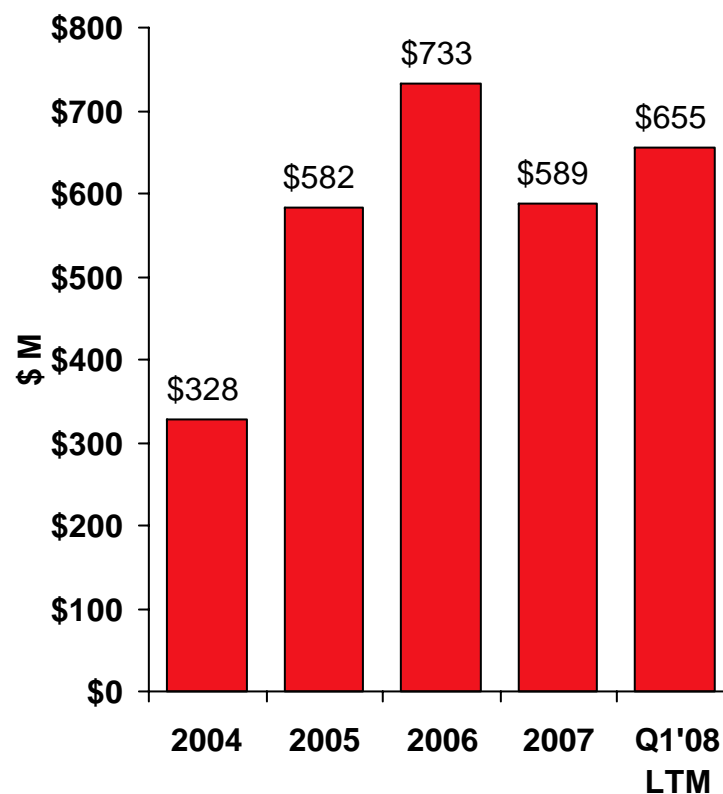


# Engines – Historical Performance

### Sales



### Segment EBIT

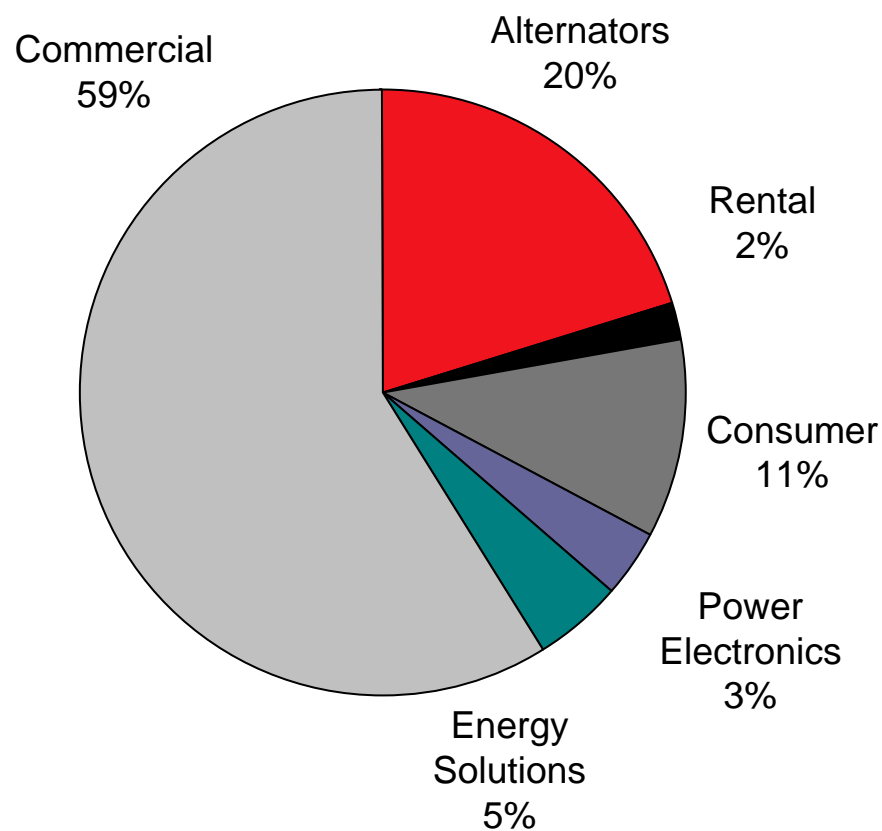




## Power Generation Segment

### Q1 2008 LTM Revenue by Product

- Capitalize on industry growth
- Leverage existing market leadership
- Establish leadership in all major markets
- Expand into new and adjacent markets



#### Q1 2008 LTM Segment Data

Sales: \$3.2 billion

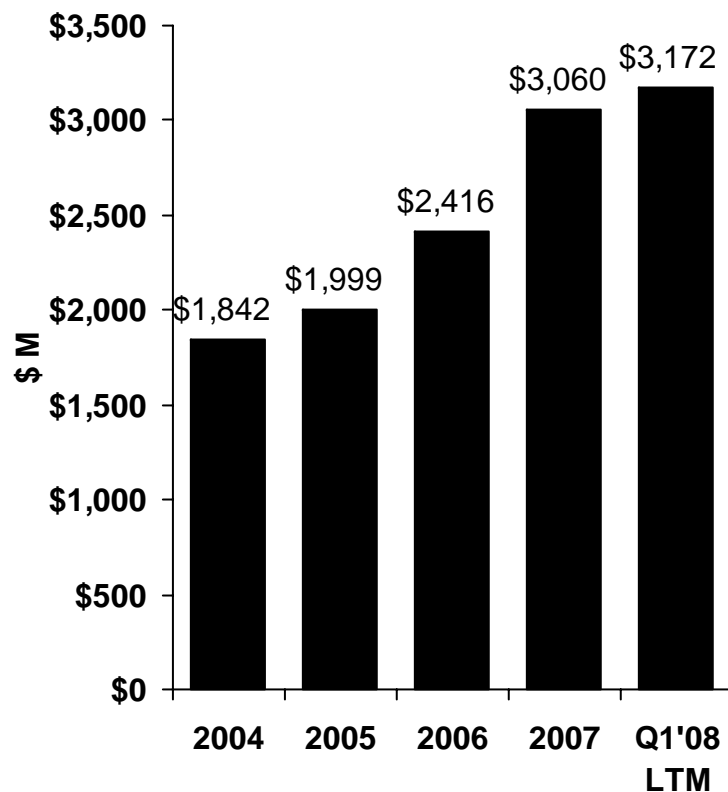
EBIT: \$335 million

EBIT Margin: 10.6%

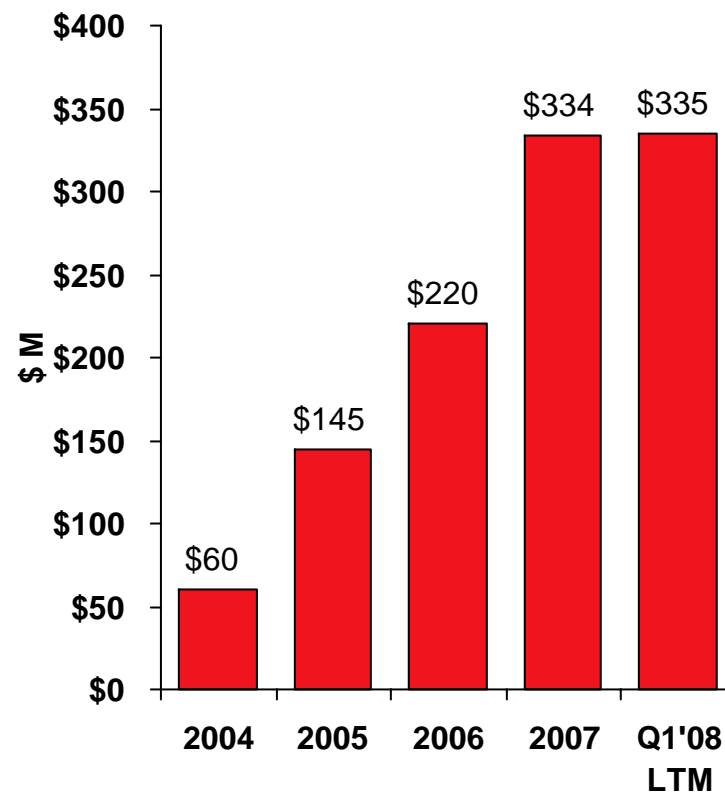


# Power Generation – Historical Performance

## Sales



## Segment EBIT

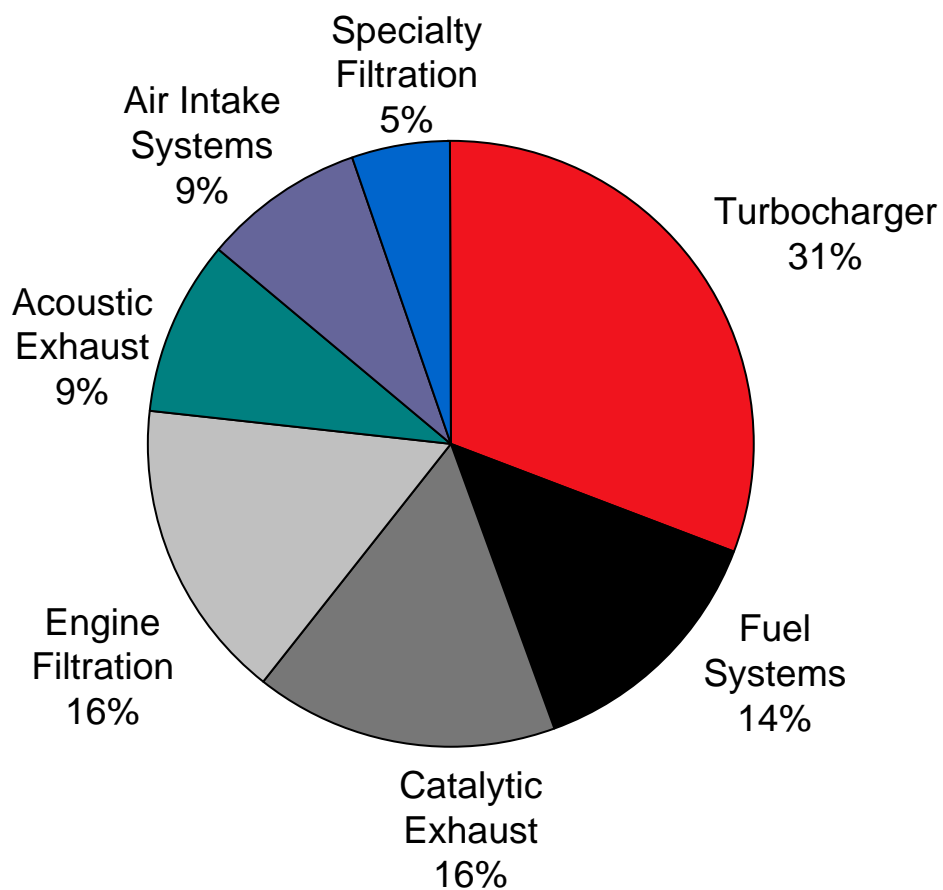




## Components Segment

### Q1 2008 LTM Revenue by Product

- New products launched
- Industry leading technology
- Capacity expansion
- Grow with CMI and non-CMI engine volumes
- Leverage global distribution to grow aftermarket



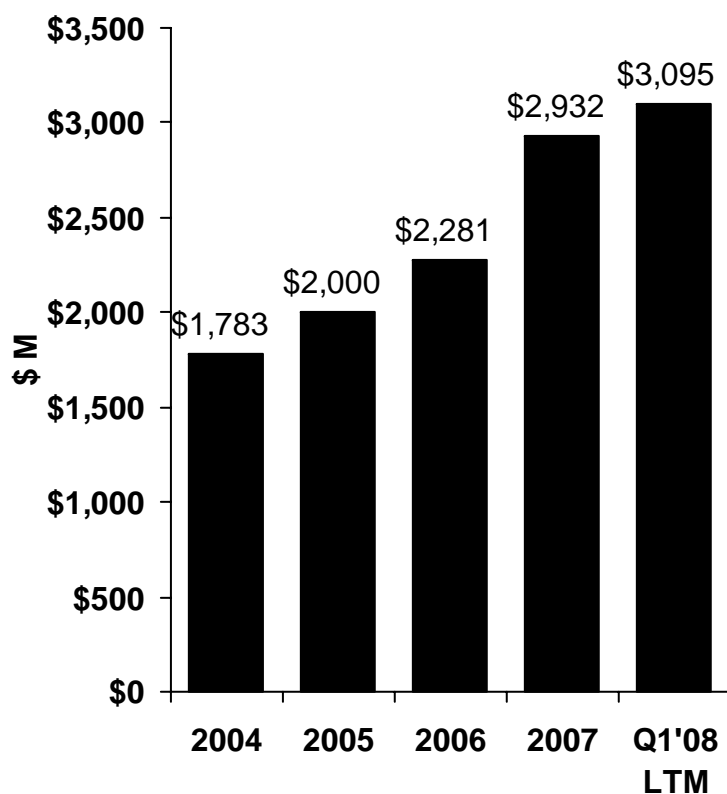
#### Q1 2008 LTM Segment Data

**Sales: \$3.1 billion**  
**EBIT: \$166 million**  
**EBIT Margin: 5.4%**

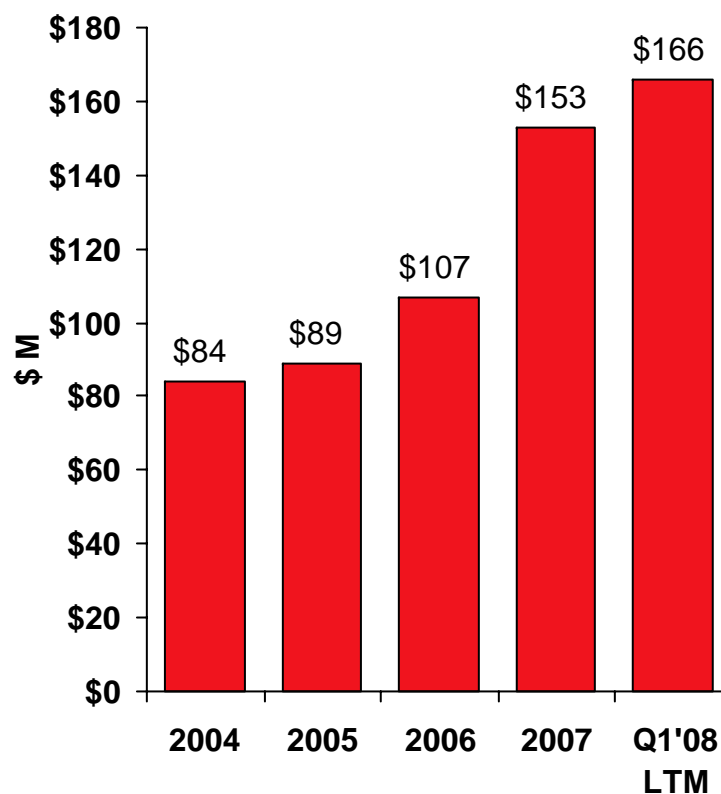


# Components - Historical Performance

## Sales



## Segment EBIT





## Distribution Segment

### Q1 2008 LTM Revenue by Product

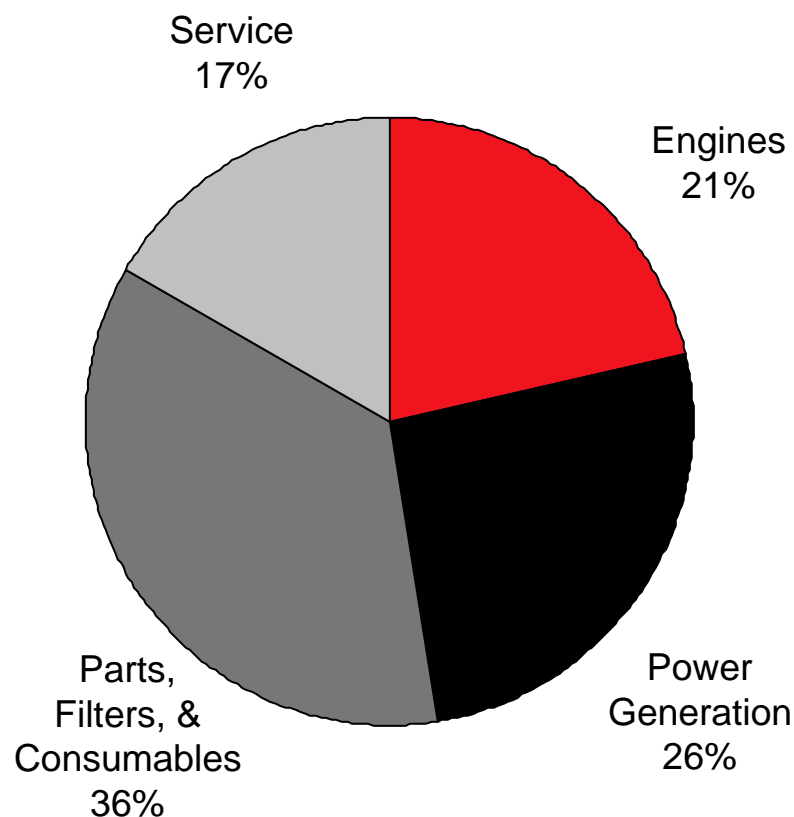
- Continue acquisitions, consolidations and integrations
- Leverage Cummins equipment growth
- World-class customer support
- Build capabilities – invest in growing regions

#### Q1 2008 LTM Segment Data

Sales: \$1.7 billion

EBIT: \$197 million

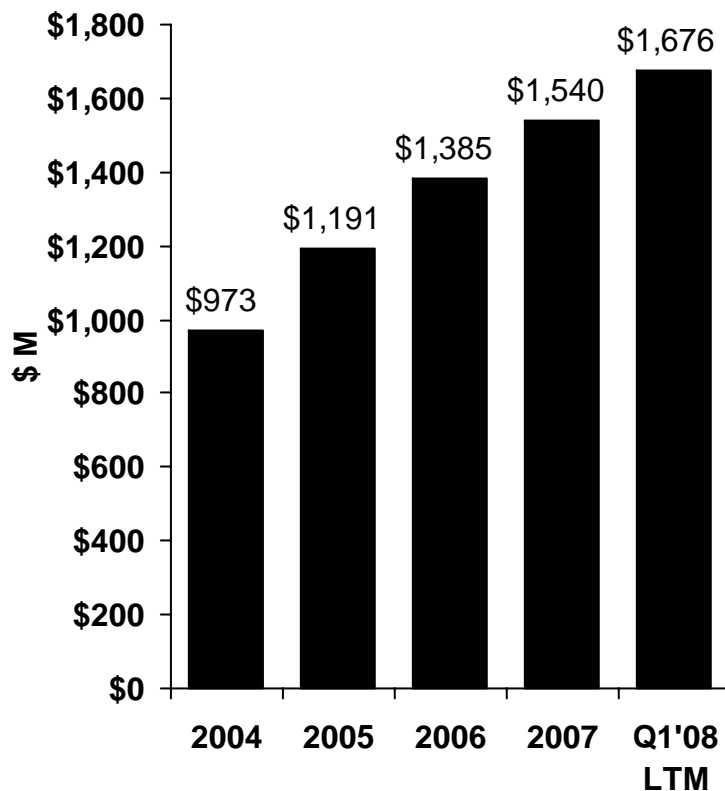
EBIT Margin: 11.8%



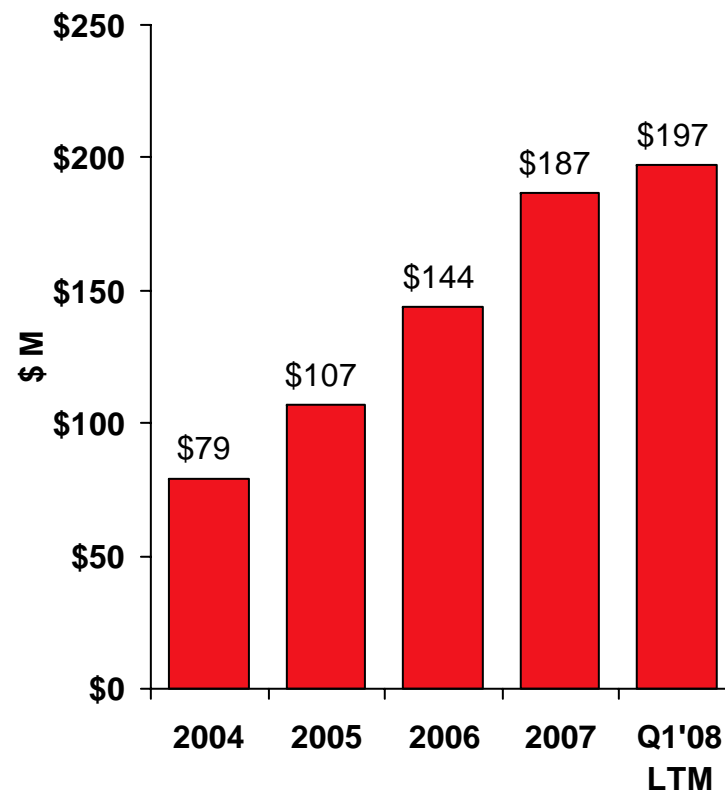


# Distribution - Historical Performance

### Sales



### Segment EBIT



# Non-GAAP Reconciliations





## Non-GAAP Reconciliation - EBIT

Millions	<u>Three Months Ended</u>		
	March 30, 2008	December 31, 2007	April 1, 2007
Segment EBIT	\$ 315	\$ 324	\$ 243
Less: Interest Expense	<u>\$ 11</u>	<u>\$ 14</u>	<u>\$ 16</u>
Earnings before income taxes and minority interests	\$ 304	\$ 310	\$ 227

We define EBIT as earnings before interest expense, provision for income taxes and minority interests in earnings of consolidated subsidiaries. We use EBIT to assess and measure the performance of our operating segments and also as a component in measuring our variable compensation programs. The table above reconciles EBIT, a non-GAAP financial measure, to our consolidated earnings before income taxes and minority interests, for each of the applicable periods.

We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure or income taxes. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data.



## Non-GAAP Reconciliation – EBITDA

### Three Months Ended

Millions	March 30, 2008	December 31, 2007	April 1, 2007
Segment EBIT	\$ 315	\$ 324	\$ 243
Add back: Depreciation & Amortization	<u>\$ 75</u>	<u>\$ 75</u>	<u>\$ 68</u>
EBITDA	\$ 390	\$ 399	\$ 311

We define EBITDA as earnings before interest expense, provision for income taxes, minority interests in earnings of consolidated subsidiaries and depreciation and amortization expense. We believe EBIT is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to financing methods, capital structure, income taxes or depreciation methods. This measure is not in accordance with, or an alternative for, accounting principles generally accepted in the United States of America (GAAP) and may not be consistent with measures used by other companies. It should be considered supplemental data.



## Non-GAAP Reconciliation – Cash From Operations Excluding Pension Contributions

Millions	<u>Three Months Ended</u>	
	March 30, 2008	April 1, 2007
Cash provided by operations	\$ 37	\$ (113)
Add back: pension contributions	<u>\$ 17</u>	<u>\$ 61</u>
Cash provided by operations excluding pension contributions	\$ 54	\$ (52)

We believe cash provided by operations excluding pension contributions is a useful measure of our operating performance for the periods presented as it illustrates our operating performance without regard to funding decisions. This measure is not in accordance with, or an alternative for, GAAP and may not be consistent with measures used by other companies. It should be considered supplemental data.



## Non-GAAP Reconciliation – Net Assets

Millions	March 30, 2008	April 1, 2007
Net assets for operating segments	\$ 4,513	\$ 4,041
Liabilities deducted in computing net assets	3,898	3,516
Pension and other postretirement liabilities	(361)	(824)
Deferred tax assets not allocated to segments	549	689
Debt-related costs not allocated to segments	26	26
Total assets	\$ 8,625	\$ 7,448

A reconciliation of net assets for operating segments to total assets in our Consolidated Financial Statements is shown in the table above.



## Non-GAAP Reconciliation – Equity Used for Return on Equity Calculation

Millions	March 30, 2008	April 1, 2007
Equity used for return on equity calculation	\$ 3,981	\$ 3,480
less Defined other postretirement benefits	1	5
less Defined benefit pension plans	372	538
Total shareholder's equity	\$ 3,608	\$ 2,937

A reconciliation of equity used for return on equity calculation to total shareholder's equity in our Consolidated Financial Statements is shown in the table above.